

Q&A

DRAFT

CONFIDENTIAL

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C. Falconer

BREIFING BOOK
ANNUAL MEETING 1994

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Responsible Drinking

1. What's Miller's position on responsible drinking?
 - It is never OK to drive drunk or with ability impaired.
2. What is Miller doing in the area of responsible drinking?
 - AIM (Alcohol Information from Miller), designed to promote responsible drinking. AIM includes TIPS (Training for Intervention Procedures by Servers of Alcohol) for bartenders, liquor store clerks, and vendors, which is designed to teach responsible selling and serving.
 - Responsible Event Plan, a manual for anyone planning a large party, picnic, or festival. The plan addresses what do to prevent underage drinking.
 - Media campaign including TV commercials and print ads reinforcing the message "Think When You Drink."
3. Is the industry effective in communicating its responsible drinking message?
 - Government studies indicate that there have been consistent declines in alcohol-related fatalities in the past 10 years, and cases of liver cirrhosis (a measure of alcohol abuse) have been declining significantly in the past 20 years.
 - Designated driver programs are used by about 2/3 of adults.

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4. Why the stepped up concern by the brewing industry about responsible drinking?
- Responsible drinking has been promoted for decades.
 - Due to the efforts of groups like MADD and SADD, society's awareness of the problem of drunk driving has never been as great.
 - The brewing industry has taken the lead in promoting server training and designated driver programs.

Drunk Driving

5. Isn't the brewing industry to blame when accidents are alcohol-related?
- It's a mistake to blame "the product" for alcohol abuse.
 - Individual drinkers are responsible for their behavior.
6. What is the brewing industry doing to support alcohol education programs to reduce drunk driving?
- Brewers are members of the National Commission Against Drunk Driving.
 - Brewers support the US Department of Transportation "Buckle Up" campaign.
 - Brewers support designated driver and free cab ride home programs.
 - In the past 10 years, alcohol-related traffic fatalities have consistently gone down.
7. What's the brewing industry's answer to victims of drunk drivers?
- It's tragic.
 - We support strict enforcement of existing drunk driver laws.

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8. What's your stance on drinking and driving? Can you still consume a beer and drive safely?
- Average adult beer consumer can have a beer and drive safely.
 - Most states consider it a crime to drive with a blood alcohol content of at least .10%.
 - Problem drinkers who have been arrested as drunk drivers have on average a BAC of .17%.

Blood Alcohol Content

9. Will the company support a proposed national goal of a uniform state blood alcohol content (BAC) standard of .08%?
- No. Most states have a blood alcohol content level of .10% because at that level of blood alcohol content, most people are impaired.
 - The average drunk driver has a blood alcohol content level of .17%.
 - Ten states have lowered the blood alcohol content level to .08%, but have no evidence that this has led to less drunk driving.
 - 3 of the 5 states which reduced their BAC limits to .08% by the end of 1991 have experienced less success in solving the problem of drunk driving than the nation as a whole:
 - **California:** Reduced BAC in 1990. The following year, the death rate for persons with BAC's over .15% increased. There was no change in the number of alcohol-related crashes.
 - **Oregon:** Reduced BAC in 1983. In 1991, the state still had more alcohol-related fatalities per vehicle mile than the nation as a whole.
 - **Maine:** Lowered BAC in 1988. Number of alcohol-related fatalities per vehicle miles rose between 1989 and 1990.

(Cont'd)

- Two nationwide studies of adult motorists showed that lowering BAC levels had little or no impact on drunk driving deaths. Lower BAC levels was the least effective of several strategies to reduce drunk driving. A combination of stiffer penalties for drivers with higher BAC would be a far more effective deterrent. (Dr. David Moore, University of New Hampshire)

Alcohol Content Labeling

10. What is your position on alcohol content labeling?

- Last year the courts lifted a long standing ban on alcohol content labeling.
- Alcohol content may now be placed on labels at the option of the individual states. We would prefer uniformity among the states' requirements.

Moderate Drinking

11. Will the company adopt the definition of moderate drinking used by the federal government in its "Dietary Guidelines for Americans" and use this in their public service announcements about moderate, responsible drinking?

- No. It is between an individual and their physician to determine what is moderate consumption based on biological and other data, such as health, weight, height, gender, food consumed, time lapsed, etc.

Beer and Illicit Drugs

12. Is beer a drug?

- Technically, yes. But while a "drug" is anything that can change the way our mind or body works, a person can legally and safely consume a can of beer without these altering affects.

13. How do you respond to someone who links beer with illicit drugs?
- (U)
- The main difference is that the vast majority of adults can legally and safely consume a can of beer and not change the way their mind or body works.
 - No long-term negative effects for the majority of adults who drink beer, as long as they do so responsibly. In contrast, very small amounts of illicit substances affect you quickly and drastically.
14. Do you advertise and promote alcohol during spring break?
- We advertise and promote in licensed premises attended by adults over 21 in spring break markets.
 - We discourage those who are not 21 with print ads like "Good beer is properly aged, you should be too" and "If you're under 21, don't even think about it."

Underage

15. How do you respond to criticisms that Miller's commercials appeal to underage people?
- Miller's policy requires actors in our commercials be at least 25.
16. Isn't Miller promoting its products to an underage consumer through its sponsorships of National College Athletic Association (NCAA) games?
- No. The viewer profile of college athletics is essentially the same as that of professional sports. The vast majority of viewers are of legal drinking age or older (approx. 70%).
17. Do your distributors sponsor college events and advertise on college sports events?
- Some of our distributors have sponsorship programs with colleges in their markets with the approval of the school's administration.

Sports Marketing

18. What is the nature and extent of Miller's sponsorship of professional team sports?
- Miller is an official sponsor of both the National Football League and the National Basketball Association. The NFL and NBA sponsorships allow us to use official league and team logos on a variety of marketing materials.
 - We also conduct several promotional programs - NBA All Star balloting and NBA draft and NFL Player of the Year - in conjunction with these sponsorships.
19. In addition to your league sponsorships, does Miller work directly with individual professional teams? What's the nature of these relationships?
- We have sponsorships with individual NBA, NHL, NFL and major league baseball teams.
 - Sponsorships can include print and broadcast advertising, in-stadium or arena signage, team identified point-of-sale materials and the opportunity to participate in special promotions geared for adult fans.

20. Describe your network sports broadcasts advertising program.
- (U)
- We currently have advertising arrangements with NBC for their NBA telecasts and with ABC for NFL telecasts.
 - We advertise on ESPN's major league baseball and NHL telecasts.
 - We advertise on ABC's coverage of the Indianapolis 500, on selected network and cable NASCAR and IndyCar broadcasts, and on network coverage of Pro-Beach Volleyball.
 - We advertise on ESPN's telecasts of NCAA, football, and basketball games, as well as on Sportcenter.
 - Advertise on ABC's PGA coverage of the Milwaukee Open.
21. Describe Miller's involvement in motorsports.
- Miller sponsors cars and races on the IndyCar and NASCAR circuits supported by advertising and promotional programs.
22. Some critics have been very critical of beer company sponsorship of motorsports—that such sponsorships target the undereducated and underaged consumer. What is your reaction to these criticisms?
- Our involvement in motorsports is designed to increase brand awareness among people, legal drinking age and older, who already have made the decision to drink beer.
23. Don't you consider Rusty Wallace and Bobby Rahal active athletes who endorse your products?
- We sponsor the respective racing teams for whom Rusty and Bobby drive.
 - These drivers do not endorse our products.

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24. What other sports is Miller involved in?
- (U)
- Association of Volleyball Professionals pro beach volleyball circuit
 - Pro Mogul skiing team
 - Mexican National Soccer team
 - Amateur bowling tournaments for adults conducted by the Bowling Proprietors Association of America
 - We also sponsor the PGA Tour and two professional golfers through our non-alcohol brew, Sharp's.
25. Miller Lite commercials popularized the use of professional athletes in advertising. How do you respond to criticism about the appropriateness of using athletes in beer commercials?
- The Miller Lite All Star campaign featured ex-professional athletes as well as other celebrities.
 - We currently use Larry Bird and Pat Riley to help us convey our "Think When You Drink" messages to a broad audience.

Ice Beer

26. We've read about a possible BATF investigation regarding marketing practices associated with ice beers. Is Miller affected by this?
- Miller markets its ice beers in a responsible fashion and is in full compliance with all regulatory requirements.
 - BATF regulations prohibit the marketing of beer on the basis of alcohol content.
 - While the BATF regulation explicitly allows the depiction of an approved label with a statement of alcohol content, we have decided not to feature in our advertising the government-approved labels which depict the alcohol content.

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27. Are you allowed to sell ice beers in Alabama and Mississippi?

- Yes. We are in complete compliance with the statutes in every state where ICEHOUSE is sold.
- Alabama and Mississippi are the only states limiting alcohol content in beer to 5% by volume and 4% by weight.

Leinenkugel

28. What about Leinenkugel's?

- (U)
- Leinenkugel's has been brewed in northern Wisconsin since 1867.
 - Brands are sold in 14 states and D.C., with core markets in the upper Midwest.
 - Four brands are available year-round, with two seasonal beers – Leinenkugel's Bock and Leinenkugel's Winter Lager.
 - We recently introduced Leinenkugel's Red Lager. Consumer demand has fueled \$3.5 million brewery expansion that will increase capacity 56% by September 1994.
 - Retail sales increased by 15.3% in 1993.
 - Market shares in key Minneapolis markets grew to 3.2% from 2.8%.
 - Volume grew 10.1% in core markets during 1993.
 - Leinenkugel's Brands:
 - Leinenkugel's Original Premium
 - " Light
 - " Limited
 - " Red Lager
 - " Genuine Bock
 - " Winter Lager
 - Leinie's Ice (in test)

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Non-Alcohol Segment

29. Please give an assessment of the non-alcohol brew segment of your industry.
- The segment grew 11% last year to an estimated 2.6 million barrels domestically accounting for just under 2% of industry volume.
 - Miller Sharp's was introduced in 1989, and has a 20% share of the non-alcohol segment.

International Market

30. Is there an increased interest in the international beer market by Miller?
- Our products now marketed in more than 75 countries, through exporting, exclusive partnerships and joint ventures.
 - Increasing our global presence by new associate sponsorship of Team Lotus Formula One racing team and advertising buy on CNN's Latin American Network.

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FINANCIAL SERVICES

Rev. 4/5

Philip Morris Capital Corporation

1. What is the status of the payment of the legal fees relating to the aborted Los Angeles Library investment?
(N)
 - To date no payment has been made by the City.
 - City agreed to pay all of PMCC's legal expenses if the transaction failed. No limit was discussed and PMCC was not advised that the City Council had approved only \$240,000 for legal expenses.
 - Mayor's office approved an additional \$50,000 in fees to pursue the deal after the first "No" vote.
 - Legal bills totaled \$562,496, but an 18% reduction was negotiated.
 - Full Council vote for approval of the payment scheduled for April 13, 1994.

Mission Viejo Company

2. Why is PM, a consumer products company, in the real estate business?
(U)
 - PM diversified into real estate in 1970. The company has changed since then. We are now managing our way out of the real estate business.
 - MVC has been profitable every year.
3. Why is your real estate division within PM Capital Corporation?
 - PMCC can provide financing for homeowner loans and land purchases even in a difficult lending environment.

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4. Is PM planning to divest Mission Viejo?

- Yes, but we are completing current projects, and we are not investing in new land acquisitions. The land owned in our planned communities is expected to be sold to residential and commercial developers over the next ten years.

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Retail Cheese Division

1. Does Kraft have a monopoly in the US cheese market?
 - No. Kraft has less than a 20% share of the 6 billion pounds of cheese sold in the total US market each year.
 - Kraft has a 43.2% share of scanned product that is found primarily in the dairy case.
 - In the retail segment, which includes scanned product as well as deli case sales, Kraft has a 31% share.
 - [Note: Industry composition is 38% retail, 39% foodservice, 18% industrial, 5% government.]
2. Has Kraft successfully launched any new cheese products in the last year? What types of new cheese products will Kraft pursue in the future?
 - We introduced:
 - Fat Free Philadelphia Brand Cream Cheese
 - Handi-Snacks Cheese and Breadsticks, and Cheese and Pretzels
 - Cheez Whiz Squeeze
 - new fat free slice flavors
 - Grated Cheese innovative container
 - entire line of 50% reduced fat products under the Kraft Healthy Favorites brand name.

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- New cheeses focused on particular usages to make them convenient:
 - Velveeta Italian
 - Kraft Naturals Pizza Shreds
 - Cheez Whiz Cheez 'N Salsa
 - Convenient packaging

Fat Free Products

3. What is Kraft's strategy with respect to Fat Free Cheese products?
 - We market Light and Lower Fat versions of our key brands. (Kraft Light Naturals, Cracker Barrel Light, Philly Light Cream Cheese products, Kraft Light Singles and Velveeta Light.)
4. Why doesn't KGF/PM introduce more fat free products?
 - Technology hurdle. Significant work must be done to make certain the product performs.
 - Taste
 - Labeling rules may limit our ability to identify the product as a fat free version.

Cheese/Dairy Pricing

5. Do we expect cheese commodity costs to fall or rise dramatically? What is our long term outlook?
- Cannot predict the supply and demand for cheese due to the uncertainty of key market variables such as:
 - weather
 - dairy herd size, and
 - pattern of government intervention.

Farm Legislation - Dairy Price Supports

6. What is KGF's position regarding milk price supports?
- We support reliance on the free market to determine supplies and prices of milk.
 - If government intervention is necessary, targeted income support without control on production may be appropriate.

Farm Legislation - Export Programs

7. What is Kraft's position on dairy exports?
- KGF/PM supports US dairy exports.
 - As barriers to trade are lowered, the US dairy industry is well placed to compete in global markets. US cheese exports grew 26% over the last couple of years, and we expect these trends to continue. As the leading cheese marketer in the US, KGF is well positioned to participate in these expanded markets.
 - KGF supports market driven export programs that are consistent with our international obligations and do not jeopardize the continued availability of dairy products at reasonable prices for US consumers.

Farm Legislation - Milk Marketing Orders

8. What does PM/KGF think about the milk marketing order system?
 - It is appropriate to provide a mechanism for dairy farmers to receive a blended price reflecting the use of milk for drinking as well as manufacturing.
 - Certain aspects of the program tend to encourage milk production in parts of the country where it is not efficient.
 - Continued refinement of the program by the USDA is appropriate.
9. Haven't your company's actions reduced the price of cheese and hurt dairy farmers?
 - Milk prices are now currently high, due in part to the flooding of last summer. But farmers have been hurt due to the volatility in milk prices resulting from the drop in government price supports without adequate programs to ease the transition. Price supports have dropped nearly 25% since 1981 as federal dairy policy moves toward a "free market" approach.
 - For the past three years, we have supported an increase in the government's support price.
10. What is wrong with guaranteeing dairy farmers a decent living?
 - Government subsidies do not guarantee farmers a decent living.
 - Could result in over production.

State Dairy Trade Practice Laws

11. Does KGF/PM adhere to trade practice laws for the dairy industry?
 - We comply with all applicable laws.
 - Competition is better served by applicable general antitrust and unfair competition laws.

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12. What are the results of the State of Wisconsin's investigation of the National Cheese Exchange?

- The investigation of the National Cheese Exchange by the Wisconsin Department of Agriculture, Trade and Consumer Protection has not been completed.
- No results have been announced.
- Kraft has committed no illegal or unethical acts.

Note: The Wisconsin Department of Agriculture, Trade and Consumer Protection is looking into this assertion as part of its continuing investigation of KGF and other members of the Exchange. At least once and sometimes twice in every decade since the 1940's, some agency of the Wisconsin state government has found it politically advantageous to conduct an investigation of the National Cheese Exchange. None of these has ever resulted in charges of wrongdoing against Kraft or any other member of the Exchange. Kraft has cooperated fully with the department's investigation and is confident that it has committed no wrongful acts.

13. What was the FTC decision affecting Singles? What is the prospective business impact?

- The Federal Trade Commission entered an order finding that some 1985 Kraft Singles copy implied a misleading claim regarding Singles' calcium content vs. milk and analog products. This order has become final.

Cultured Products

14. How has integration of the Cultured Products Group into KUSA gone?

- We have integrated the former Cultured Products sales force into the KUSA sales force and have added the seven Cultured Products operating plants to the KUSA stable of plants.

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Coffee

15. Why aren't you participating in the Gourmet coffee segment?
- Our Gevalia mail order coffee business with \$100 million in revenue is the largest single packaged gourmet brand in the US. (Gevalia 1993 volume was 13% above 1992, following 21% growth in 1992 vs. 1991.)

Bakery

16. Is the cake business growing?
- Cake growth strategies generated volume growth of 4.6% in 1993.
 - Major contributors to this growth were:
 - Fat free growth
 - Entenmann's Singles rollout in Northeast
 - Effective advertising
 - Successful expansion to Wal Mart and K-Mart.
 - We will continue these strategies.
17. What are your plans for Fresh Lender's Bagels?
- Rollout in 1994 for the remainder of the Northeast and Southern California.
 - Watching Sara Lee's recent introduction of Fresh Bagels in California.

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Cereal

18. General Mills has stated they are not raising prices yet, Post and Kellogg keep raising prices. Any comment?
- Our price increases are influenced by an evaluation of our total cost of doing business and the competitive framework.
 - We focus on maintaining the price/value relationship of our products.
19. How is Nabisco performing?
- Nabisco has been seamlessly integrated and has significantly exceeded our expectations.
 - For 1993, volume was 76.3 million pounds and IFO was \$52.1 million compared to Plan projections of 63.6 million pounds and \$30.0 million, respectively.

Desserts

20. What are your plans for the RTE business?
- Recently launched shelf stable gelatin - Kraft Handi Snacks.
 - Product achieved 94% trade acceptance with average 3.6 SKU out of four.
 - Plans in place to defend against shelf stable entries which are reported to be coming from ConAgra and Hershey.

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Dinners & Enhancers

21. What is the impact of private label on the Dinners & Enhancers division?

- Division has shown significant growth over the last several years, but growth slowed in 1993.
- Private label pressure is increasing due to distribution gains and price gaps as shown below:

	<u>Private Label Share</u>		<u>Price Gap Vs. Private Label</u>	
	<u>1992</u>	<u>1993</u>	<u>1992</u>	<u>1993</u>
Stuffing	9.9%	11.4%	51%	61%
Instant Rice	2.3	2.7	34	43
Coatings	0.2	1.2	61	61
Syrups	23.4	23.5	107	107

- We plan to restore base momentum by managing price gaps, improving the quality and nutritional profile, and enhancing packaging.

Oscar Mayer

22. What is Oscar Mayer doing to prevent E. Coli bacteria contamination?

- E. Coli is a bacterium found in warm blooded animals and is destroyed by thoroughly cooking raw meats.
- All food borne outbreaks have been linked to foods that have not been heated or foods that were improperly heated.
- Oscar Mayer processed meats are thoroughly cooked to an internal temperature of at least 155°F.

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23. During the year there were news stories of unsanitary procedures being performed at some meat packing plants. What is Oscar Mayer's position on this issue?
- Purchase high quality meat raw materials only from federally inspected meat plants.
 - Each lot of raw material is again inspected for approval by us when it arrives at our plant.
 - If our inspection shows that any shipment is not up to our standards, we dispose of it or return it to the supplier.
24. Oscar Mayer has closed its Sandusky, Ohio facility and recently downsized its Nashville facility. Why were these facilities shut/downsized? Are there further closings planned?
- Plants were closed/downsized to eliminate excess production capacity and reduce costs.
 - To ensure that we are cost competitive, additional plant closings may be needed.

Budget Gourmet

25. There has been a lot of press about problems in the frozen meal category. How has the category and All American Gourmet performed?
- The frozen meals category has performed very strongly in 1993 with volume up 5%. That's the largest increase in the category in more than four years.
 - AAGC's total volume has increased 15%, three times the rate of the category, driven by solid consumer advertising support for the Budget Gourmet brand and the introduction of a new line of pasta entrees "Budget Gourmet Special Selections."

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KGF Canada

26. What is KGF Canada doing to meet the gaining popularity of club-size products?

- KGF Canada has established a separate sales and business organization to work with these new customers.
- We have created a number of new package sizes and formats to capitalize on this area. These are made available to all our customers at the same prices and terms. Sales of these new pack sizes were up over 20% in 1992, and a further 34% in 1993.

27. How has the use of BST impacted KGF Canada?

- (N)
- No impact.
 - Currently not authorized for use in Canada, but is being reviewed.
 - No Kraft USA dairy products are exported to Canada.

Kraft Food Ingredients

28. Is food ingredients an attractive business?

- KFI is an industry leader in supplying such value added ingredients as cheese, spray dried products, confections, vegetable oils and cheese analogs.
- Growth is driven by retail food trends towards taste, convenience, nutrition, value and variety.
- KFI provides synergies to KGF as a supplier, in improved plant utilization and in technology.
- Business review is in process.

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29. Does KFI sell ingredients to KGF competitors?
- (U)
- KFI sells products to most major food processors in the US.
 - KFI does not offer for sale any products which would give a competitor an advantage over KGF.
30. Does KGF participate in the private label segment of the food industry?
- KFI does manage a portfolio of private label business in categories where we do not have branded entries such as vegetable oils, pan sprays, and non-dairy creamers.
31. What is BerZerk Candy Werks?
- BerZerk Candy Werks is a small entrepreneurial business within KFI, focused on children's novelty candies. Products include *Candy Caller*, introduced in May 1993, which sold over \$11 million by year-end.

Productivity

32. What is the degree of coordination between Kraft USA and GF USA?
- Since 1989, KGFNA, excluding KFI, has achieved synergy savings totalling \$1.5 billion by 1993, and plans to achieve an additional \$1.1 billion by 1996.
 - Reduced number of operating groups.
 - Reduced sales forces from 5 to 2.
 - Integrated logistics/distribution, manufacturing, R&D.
 - Eliminated redundancies.

33. What is the capacity utilization rate at KGF's plants?

- Capacity utilization was approximately 50% on a six-day, 24 hours per day operating basis in 1992 (latest data).
- In 1993 closed 8 plants and consolidated departments across other plants. Two or three other major plants will close this year. As a result capacity utilization rates will improve by 10 to 20 percentage points in affected categories.

Kraft Foodservice

34. What is the representation of other KGF products in your warehouses?

- KGF Products account for 21,056 SKU's out of the 200,000 SKU's in the Kraft Foodservice Network. The majority (67.0%) of the SKU's are from General Foods and Oscar Mayer.

35. How much of KGF's sales goes through our foodservice business?

- KFS had 1993 sales of \$3.9 billion. Approximately 20% consisted of KGF manufactured product.
- Combined sales of the foodservice divisions of Kraft USA, GF USA and KGF Canada totaled \$1.4 billion.

36. To what extent is your workforce unionized?

- Kraft Foodservice has 42 locations and 12 are unionized as of December 1993.

37. Any divestitures planned for 1994?

- No divestitures are planned for 1994.

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38. What are your new facility plans for 1994?

- Plan to expand several facilities, and are evaluating new facilities at a few existing locations that are not expandable.

BST

39. Is the FDA the only agency that says BST is safe for humans?

- No. Regulatory agencies in over 20 countries, including the United Kingdom, Canada, France and Germany, have authorized BST as safe for human consumption.
- Other health and medical groups have certified that BST is safe. (American Medical Association, American Dietetic Association, National Institutes of Health)

40. What is BST?

- BST is a naturally occurring protein hormone, Bovine Somatotropin, that is in all beef animals.
- If given to cows it can help increase milk output.
[Note: BGH and BST are the same.]

41. Will Oscar Mayer use beef with BST, the Bovine Growth Hormone?

- Yes.

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42. Will KGF use milk from cows treated with BST?
- The FDA approved the use of BST in November, 1993. As the FDA stated: "FDA approved the product because the agency has determined after a thorough review that BST is safe and effective for dairy cows, (and) that milk from BST-treated cows is safe for human consumption..."
 - If farmers choose to use BST, we see no reason to reject the milk.
 - Because the milk is the same, there is no way to test for milk from supplemented herds.
43. Don't you think consumers will want labeling to tell them whether supplemental BST is in their dairy products?
- According to the FDA, the milk is the same, and the FDA does not require labeling.
 - We will continue to provide consumers with safe and wholesome products.
44. What impact will the use of BST have on the Milk Support Program?
- Too early to tell.
 - It is only one of a number of variables that can affect the program.
45. Why is KGF opposed to states requiring labeling for the use of BST?
- FDA does not require labeling.
 - Patchwork of state labeling requirements would impede national marketing of our products.

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46. The New England states plan to implement legislation that will require the labeling of products using BST milk. Is this a risk to Kraft?
- No bills have yet been finalized.
 - If they become law they would be challenged on constitutional grounds.
47. Does FDA approval of BST put family farms at risk?
- Office of Management and Budget concluded that BST may benefit farms with good herd management whether small or large.

Biotechnology

48. Do you use bioengineered foods in your products? Will you use them in the future?
- Virtually all of the world's food supply has been "bioengineered" through plant and animal breeding improvements.
 - In the currently popular use of the term, however, there are few bioengineered foods available for use in products.
 - KGF will consider its options for those products that have FDA approval.

Irradiation

49. Do you use irradiated foods in your products?
- We do not currently use the irradiation process.
 - We have no current plans to use irradiation or irradiated ingredients.
 - We have many other ways to ensure the safety of our products.
 - Given the nature of our product line, irradiation does not represent a major opportunity for us.

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Animal Testing

50. Do you do any animal testing? What is the corporate position on animal testing?
- We do not comment on development activities.
 - Company contributes to research aimed at trying to identify alternatives to using laboratory animals.
 - **Confidential Note:**
 - KGFNA does no animal testing, but contracts for testing at facilities that meet or exceed national standards.
 - KGFI does no animal testing, but contracts for testing in the US at nationally recognized facilities.
 - PM USA does animal testing in Europe.
51. Is Oscar Mayer sensitive to Animal Rights and Animal Welfare issues?
- Oscar Mayer purchases meat and poultry ingredients from processors who certify compliance with USDA Humane Slaughter Laws and Regulations.
52. Oscar Mayer grows and processes turkeys. Do they follow good animal welfare practices?
- Yes. All company grown turkeys are produced under appropriate housing and feeding practices.
 - All turkeys are processed and handled in compliance with USDA Humane Slaughter Regulations.

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Kraft General Foods International

53. What has been the real growth of your business, both unit and income, excluding acquisitions, divestitures and currency?
- Base business volume growth (89-92) approximately 3% CAGR.
 - IFO growth (88-92) is 10.5% excluding currency impact. Including currency, IFO growth is 12%.
54. Do you plan to bring any European products to the US?
- Lite coffee concept originated in Europe.
 - Soluble cappuccino concept introduced in the US under the Maxwell trademark.

Europe

55. How large are the markets in Europe for your three leading products - coffee, confectionery and cheese? What is your share? What are your margins?
- Coffee, confectionery and cheese are staples in the European diet.
 - We have number 1 share positions in all categories.
 - Coffee category is \$13-15 billion in size. We have a 27% share in the roast & ground segment. Margins above 10%.
 - Chocolate is \$19 billion in size. We have a 17% share in continental Europe with a niche position in the UK. Margins approximately 10%.
 - Cheese is \$40 billion in size. We have a 41% share in the process cheese segment and a 40% share in the cream cheese segment. Margins approximately 10%.

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"Dolphin-Free" Tuna

56. Do Kraft General Foods' products in Italy, Mareblu, use only "dolphin-free" tuna?
- Yes.

Emerging Markets

57. How are we capitalizing on the opportunities in Russia and Eastern Europe?
- We export Jacobs Suchard coffee and confectionery and other food products into Russia and Eastern Europe.
 - We recently signed agreements to acquire:
 - the Kaunas confectionery company in Lithuania
 - the Republika confectionery company in Bulgaria
 - the Chorzele Cheese company in Poland
 - the Poiana confectionery company in Romania
 - We have made significant acquisitions in Hungary (Csemege), in Slovakia (Figaro), in Poland (Olza), and in the Czech Republic (Dadak).
58. Do you have a business in Yugoslavia? Is this at risk?
- We do not have an in-country operation in Yugoslavia.
 - We continue to export product to Yugoslavia
 - Tonnage has dropped off each year since 1991 when we sold nearly 2,000 tons of product.
59. What type of food businesses do you have in Asia?
- Business focused on core categories of coffee, confectionery and cheese.
 - Sizable grocery business selling products such as Tang.

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60. How large is your Latin America food business?
- Contributes \$500 million in revenue and is highly profitable.
 - Seeing increases in consumer purchasing power in our key countries: Argentina, Mexico and Brazil

Joint Ventures

61. Are you involved in any joint ventures?
- Turkey with Sabanci as our partner.
 - 50/50 joint ventures in Japan and Korea.
 - PRC: 3 joint ventures where we have majority equity positions for the sale of Maxwell House Coffee, Tang and Kraft dairy products.
 - Latin America confectionery:
 - Brazil: 2 joint ventures operating under the names of Q-Refres-Ko and Lacta.
 - Columbia under the name of Colombina.
 - Costa Rica under the name of Gallitos.
62. Doesn't KGFI's expansion into developing areas of the world encourage people to adopt the unhealthy eating habits of Americans?
- We are in the business of giving consumers what they want — not dictating their needs and preferences.
 - We produce food products of the highest quality, safety, hygiene, and nutrition for consumers who wish to buy them, wherever they live.

Private Label

63. Are there large price gaps in Europe between branded consumer goods and private label products?
- European price gaps have been at the same order of magnitude as the US experience.
64. How large is private label in Europe in your main categories?
- Private label shares have traditionally been higher in Europe than in the US, but they are not growing.
 - The importance of private label products varies by country and by category.
 - Private label is not a major threat in Roast & Ground coffee and confectionery. (Excluding the trade that is "closed" to us such as Aldi in Germany.)

Irradiation

65. Does KGFI sell irradiated food anywhere in the world. What is the corporate position?
- Consumer concern and unease is such that we have decided, for the present, to avoid the use of irradiation on our food products.
 - However, the World Health Organization estimates that widespread use of irradiation would save \$1 billion annually in costs now associated with the treatment of trichinosis.
 - We support continued research in this technology and education to increase consumer understanding and support.

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KGF and ECR

74. What are KGFNA's plans to take advantage of ECR growth?

- We are focusing our energies on 3 areas:
 - Changing our business practices to take advantage of EDI (Electronic Data Interchange) capabilities to exchange critical market and transaction data with our customers;
 - preparing to assist customers as they adopt the category management approach to selling products; and
 - taking advantage of the formation of KGF Customer Service, Incorporated to provide a wide-range of distribution options that only a company like KGFNA can offer.

Microbial Contamination/Hazard Analysis Critical Control Point (HACCP)

75. What is HACCP and what is the impact of USDA and FDA regulations for HACCP on Oscar Mayer?

- Hazard Analysis Critical Control Point (HACCP) plans are tools designed to identify and control known food safety risks in conversion and distribution processes.
- USDA and FDA are proposing regulations for HACCP which will be applicable to our meat processing business.
- Oscar Mayer has, on a voluntary basis, established a plan to implement HACCP in all plants in 1994.
- The impact to current conversion and distribution systems will be minimal because HACCP plans are an enhancement to OMFC current USDA approved Total Quality Control programs.

Efficient Consumer Response (ECR) Impact on Independents and Wholesalers

69. What opportunities does ECR provide for the independent?
- ECR provides the independent with a more efficient cost structure to bring better value to customers.

ECR Change and Benefits

70. Doesn't ECR go beyond the installation of scanners and imply the type of change for the industry that goes way beyond any ordinary advancement in technology?
- Two-thirds of the ECR savings, or \$20 billion, can be achieved with current technology.
 - The challenge is changing businesses practices.
71. In your opinion, does the ECR project solve the problem of maintaining a level playing field on deals and allowances for the independent operator and his wholesaler? If so, how? If not, why not?
- The ECR vision for promotions is that they are more efficiently executed through Point of Sale/scan capabilities.
 - The current sea of inefficient trade dealing will evaporate and with it most, if not all, level playing field issues.
72. Why did the Uniform Commercial Standard (UCS) concept lose its momentum and why should one believe that ECR will live up to its potential in the food industry?
- UCS lacked a vision to drive it. ECR is a complete vision of a more effective system.
73. Will independents be willing to share their Point of Sale scan data with their wholesalers? And with their manufacturers?
- Over time more and more independents will see the value of a supply chain that is driven by Point of Sale/scan data.

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Price Hedging

66. What are your largest raw materials, and do you hedge their prices?
- Our largest raw materials are coffee, cocoa, and milk.
 - We utilize hedging strategies on coffee and cocoa.
 - We are unable to hedge milk prices because it is a locally-controlled commodity in the EC, and there is no futures market.

US Sugar Program

67. What is the KGF position regarding the US Sugar program?
- The program causes artificially high prices for sugar through import quotas and marketing allotments that create imbalance between supply and demand.
 - In the 1990 Farm Bill, Congress adopted mandatory marketing allotments which were announced for the last quarter of FY93.
 - We registered our opposition to allotments through the Sweetener Users Association, and provided industry support for the announcement by the Secretary of Agriculture on September 30, 1993, that marketing allotments would not be imposed for the first quarter of FY94.
68. Is there an opportunity in the near term to modify the domestic sugar program?
- The Omnibus Farm bill will be up for reauthorization in 1995, and the sugar program will be targeted for reform.
 - Congress has shown an increasing dissatisfaction with agriculture subsidy programs.
 - Growing divisions exist between the domestic sugar growers and processors for the future direction of the sugar program.

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USDA Food Safety

76. Does KGF support the recommendations of the Vice President's Task Force on Reinventing Government that calls for transferring the food safety responsibilities of USDA, now carried out by the Food Safety and Inspection Service (FSIS), to the FDA?
- Current meat and poultry inspection system is outmoded.
 - It does not provide adequate public health protection.
 - It is greatly in need of reform.
 - The required reform can be carried out effectively by the Department of Agriculture.

Temporary Emergency Food Assistance Program (TEFAP)

77. Does PM/KGF support emergency food assistance programs such as TEFAP?
- It is appropriate to distribute surplus food for humanitarian purposes in foreign disasters.
 - Domestic distribution must be managed very carefully to avoid distribution of food to non-indigent and thereby disrupting the entire food distribution process in the US.
 - Food stamps are a better way to handle distribution to the poor in the US.

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GENERAL OPERATIONS

Rev. 3/31

Corporate Aircraft

1. Why does PM need an Aviation Department?
 - 2 primary reasons:
 - Many locations in the US and in Europe are difficult to reach via commercial air, and it allows us to travel in developing regions of the world not supported by reliable commercial airlines.
 - Greater level of security for senior management.
2. How many corporate jets does PM have?
 - 10 jets, 1 helicopter.
 - We had 14 jets last year.
3. How much does the corporate aircraft program cost?
 - Project \$24 million for 1994 (OB).
 - Down \$9 million from 1993 OB (1993 actual was \$28 million).

Headquarters Costs

4. What is the corporate headquarters doing to keep costs down?
 - In all cases 1994 operating budgets are less than the 1993 budgets.
 - Due to the early retirement program offered in 1993 and elimination of open positions; headcount is down 100 positions (1993 year-end headquarter headcount is 972).
 - All functions are looking to further reduce costs.

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Smoking Policy

5. Does PM have a smoking policy? If so, what is it?
- Yes, we do. In a nutshell, it is a policy based on respecting the rights of non-smokers and smokers, courtesy, mutual respect, and accommodation.
 - Our policy, "A Guideline to Accommodating Smoking," is available.
6. What is PM doing for its employees who are exposed to ETS in the workplace?
- We do not believe ETS is harmful.
 - We accommodate both smokers and nonsmokers in our workplaces.
 - The maintenance of our ventilation systems meets or exceeds current HVAC standards as established by the American Society of Heating, Refrigerating and Air Conditioning Engineers (ASHRAE).

Burma

7. Do you carry on any business dealings in Myanmar (Burma), whose government has a history of human rights abuses?
- No.

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Vietnam

8. Does PM have an office in Vietnam? Does PM support the lifting of sanctions in Vietnam?
- PM has established a representative office and we are evaluating opportunities to make our products available in Vietnam. Nothing has been finalized.

India

9. With the recent liberalization of the economy in India, will foreign investments increase? Is PM planning to increase its presence in India?
- We are looking at several alternatives to increase our presence in India.
 - We are already present in India with 35% ownership of the second largest cigarette company, Godfrey Philips of India. We are not marketing Marlboros at this time.

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People's Republic of China

10. Do you do business in the People's Republic of China? Do you think the PRC, with its abusive human rights record, should be "rewarded" by western companies for the sake of profit?
- Yes. We are in compliance with the policies of the US State Department regarding the PRC.
 - With a population of 1.2 billion, it's essential that we increase our presence there as our principal competitors have and continue to do so.
 - To date, we have established 3 joint ventures:
 - coffee (Maxwell House) with the Guangzhou Dairy Products Factory,
 - powdered beverages (Tang) with the Great Wall Food Company in Tianjin, and
 - KGFI with Beijing General Corp. for Agriculture, Industry, and Commerce to start a joint venture dairy plant.
11. How have the recent "Most Favored Nations" (MFN) developments affected our current business in China?
- It is still too early to determine how these negotiations will affect our business, and it is our policy generally not to comment on geopolitical topics.
 - We support free and open trade and will continue to abide by the laws and regulations set forth by the US government.

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12. What does the recent cooperation agreement represent in terms of PM's potential tobacco business in China?

- There are 3 phases to this agreement:
 - production of a brand for export,
 - production of Marlboro for the domestic market, and
 - production of other brands for both domestic and export sales.
- We expect most of this to begin this year.
- With over 300 million smokers, China is the largest cigarette market in the world.
- Currently, the Chinese monopoly alone accounts for almost 1/3 of the world's cigarette production. International companies currently hold only 1% of the market.

South Africa

13. What is your outlook on South Africa?

- Our KGF and Jacobs Suchard businesses have licensing agreements in South Africa, but royalties are relatively insignificant.
- Philip Morris International has existing arrangements in South Africa also.

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TOBACCO OPERATIONS

Rev. 4/8

PM USA

1. What are the biggest risks to PM USA's growth outlook.
 - Price competition due to aggressive support for private label and other low priced products.
 - Widening price gap between premium and discount brands.
 - An increase in the FET.

Market Share

2. What is PM USA's position in the industry; its share of market?
 - Market leader since 1983.
 - Shipment share of market in 1993 was 42.2%.
 - The best selling premium and discount brands in the industry.
 - Marlboro shipment share in 1993 was 23.5%, largest brand.
 - Basic, third largest brand and the largest discount brand, 5.3% shipment share.

Sales Breakdown

3. What is the retail breakdown of our sales?
 - (N) ▪ Convenience stores account for 47% of industry sales, supermarkets 25%, drug stores 7%, mass merchandisers 6%, and other outlets 15%.

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JTI

4. Is there any threat of the Japanese Monopoly becoming a larger competitor in the US market?
- (N) ■ JTI has shown interest in expanding beyond Asia. We expect them to enter Europe and the US. In fact, JTI's Wave entered the US market in 1993.

Price Reduction/Marlboro Friday

5. Is PM USA satisfied with the outcomes of the price reduction?
- Yes, broad scale Marlboro price promotion announced April 2, 1993, and list price reduction announced in July and implemented in August, reduced absolute prices to 1990 levels and closed the gap.
 - Marlboro gained 4.9 Nielsen share points between March and January, and increased to a record high of 26.9% SOM.
 - Other premium brand shares climbed to 9.2% in December.
 - Discount category declined 5.1 points from March to 32.6% in January.
 - Basic increased market share to 4.6%, best selling discount brand.
6. What is PM USA doing to make sure the same situation won't be repeated?
- Building brand equity.
 - Managing premium/discount price gap.
 - Balancing price value relationship of trademarks.

7. How has PM USA adjusted to the new environment since August to ensure future growth?
- Investing in our brand franchises with marketing programs.
 - Restore and build equity and value to the consumer.
 - Watching the price gap to ensure stability.
 - Streamlined business processes:
 - Number of cigarettes produced per labor hour increased 5%.
 - Factory utilization rates increased.
 - Total manufacturing cost per thousand decreased 4%.
 - Productivity improvements of \$358.6 million in 1993, with \$285 million budgeted for 1994.
8. How great of an affect did inventory reduction by wholesalers and retailers have on PM USA volume.
- Inventory reduction for PM USA about 3.4 billion units (about 1.7% of total sales in 1993).
 - The wholesale trade accounted for about 2.2 billion units and the rest was accounted for at retail.
9. What do you expect industry shipments to do this year?
- The industry has been declining since 1981.
 - Industry will continue declining at an annual rate of 2% – 2.5%.

10. Won't lower prices induce teenagers to buy Marlboros?
- We have no evidence that it will.
 - None of our research deals with people under the legal age who purchase cigarettes.
 - None of our marketing activities are directed at people who are under 21.
 - We proactively support legislation that makes smoking illegal for those who are under 18.
 - We work with retailers to make sure they understand and obey the law ("It's The Law").
11. Does our research show an increase in the number of smokers as reported in the media?
- (N) ▪ The Center for Disease Control and Prevention reported an increase in smoking incidence in 1991 of 25.7% from 25.5% in 1990. However, we see consumer take-away declining at 2 to 2.5% annually.
12. What would have happened if you had made none of the changes that you announced on April 2, 1993?
- We believe discount growth would have continued to accelerate to the detriment of Marlboro and our other premium brands.
 - If trends from June 1992 through April 1993 had continued and we hadn't taken action on April 2, Marlboro's share would have fallen to 19%-20% by year-end. The discount category, had trends continued, would have increased to about 46% of the market.

13. If Marlboro's share declined below 24% with the price gap stable, would a further narrowing of the gap be in order?
- (N)
- We expect to see local promotional activities by competitors on different brands, premium and discount. That's part of normal marketing and it doesn't concern us.
 - A wide gap leads to premium brand instability and premium share loss.
 - We carefully monitor the market.
14. What impact did the change in strategy announced on April 2, 1993 and the subsequent price reductions have on industry volume?
- Both the retail and wholesale trade adjusted inventories downward.
 - Estimate total inventory corrections accounted for 23 to 26 billion units.
 - Year end LIFO program in November 1993.
15. What was the price gap between premium and discount cigarettes before your announcement, and what is it now?
- In convenience stores, Marlboro's pack price has fallen from \$2.23 in March 1993, to \$1.92 today.
 - Discounts has risen from \$1.18 to \$1.35.
 - Price gap has been cut in half from 89% to 42%.

Discount Brands

16. How will PM USA increase profitability at the low-end.
- Build discount brands with equity.
 - Raise prices where possible.
 - Reduce costs to improve discount brand margins.

17. Are there any significant changes occurring in the discount category? If so, what are they?

- Manufacturers are building brand equity by offering consumers more than just price in a product.
- Three *branded* discount products have separated from the pack: (Basic, 4.6%; Doral, 4.5%; GPC, 4.5%)
- Basic launched an advertising campaign in the 3rd qtr. '93. Program offers consumers added value in addition to lower price.
- Distribution of private label brands has leveled off.
- Some retailers now have their own cigarette brand.

18. How are your discount brands doing?

- PM USA 's share of the discount category grew 1.3 points in 1993.
- Basic is the #1 discount brand with a 4.6% share in January and the #3 brand in the industry behind Marlboro and Winston.

19. What is the profitability of your discount brands?

- Discount brand profitability is lower than Marlboro and our other premium brands. Profitability has increased vs. '93.
- [PM USA budgeted following net contribution margins for 1994]:

Marlboro.....	\$25.93	Basic.....	\$10.20
Total Discount.....	\$9.84	Private Label.....	\$7.69
- [Change in net contribution margins vs. 1993]:

Marlboro.....	+ \$2.57	Basic.....	+ \$7.33
Discount.....	+ \$5.32	Private Label.....	+ \$4.65

20. Are you price promoting Basic right now because you are losing share in the discount category?
- Basic remains the #1 selling brand in the discount category and the #3 brand in the industry.
 - Basic's share is down, but the entire discount category's share is down.
 - Promoting only where price competition is severe and Basic is losing share.
21. Could you confirm the shift of funds from Basic's ad budget to Virginia Slims? Do you think this will affect PM's ability to compete in the discount market?
- Not true. Virginia Slims has its own budget and plans, and Basic has its own budget and plans.

Private Label

22. What threat do private label brands pose to PM USA brands?
- Private label products grow when the economy is bad or when prices of brand name products are too high.
 - Prior to August 1993, private label cigarette sales grew because the price difference between premium brands and low priced cigarettes was too big.
 - Private labels, which peaked at 10.4% of the industry in May 1993, have since declined.
 - In January Nielsens, the private label segment was 7.5% share of market.
 - Since price reduction, private label share declined and our branded products grew.

23. Is PM USA In the private label business?
- Yes, we participate in all segments.
 - Valuable partnerships can be established with the trade through the private label business.

Marketing Promotions

24. Have costly programs like Marlboro Adventure Team been effective?
- Yes. Marlboro Adventure Team was the biggest consumer promotion in the history of the industry.
 - An estimated 16.8 million smokers collected MAT miles.
 - MAT was successful at increasing Marlboro's share. Reinforced brand loyalty.
 - Received over 6.8 million mail receipts for 28 million items.
25. You mentioned that PM USA operating income was down because of lower cigarette pricing and your "substantial marketing investment in Marlboro." How much did you spend on the Marlboro Adventure Team promotion? What were some of the other marketing expenditures?
- Will not discuss our marketing expenditures for competitive reasons.
- (**Confidential:** Cost of MAT: \$450 million)
26. Did MAT add two million consumers to your database?
- We consider that information proprietary.
27. How many people are on your database?
- We consider that information proprietary.

28. If MAT was successful, why are you ending it? What is the new gear continuity program that you are offering consumers?
- MAT was successful because it was new and different. Promotion, by its nature, is short-term and pulsed.
 - Starting this month, we will offer a thematically different continuity program, Marlboro Country Store.
29. What is the status of the Marlboro Adventure Team gear backorders?
- (U)
- The demand for MAT gear far exceeded our expectations.
 - The promotion expired February 28. We expect to fulfill all orders received prior to the program's expiration within the 10- to 12-week period promised on the order form.
 - Written acknowledgment of orders will be delivered to consumers within the next few weeks. Delivery delays, if any, will be immediately communicated in writing with all affected consumers.
 - To expedite order processing, PM retained 4 additional processing facilities and 3 additional fulfillment locations.
 - Special edition T-shirts for consumers as added bonus in appreciation for their patience in awaiting the arrival of their MAT gear.

30. Why did PM USA run different ads for smokers and non-smokers in December's People magazine?
- We are evaluating the effectiveness of selective binding (customized use of magazine circulation to reflect advertiser's ideal audience).
 - Tested in December in Time Inc's magazines (Sports Illustrated, People, and Time).
 - Our advertising ran in all magazines, but the ads that appeared in magazines corresponding to smokers were different.
 - Our objective is to deliver more sophisticated offers and specific messages to smokers.
 - Results of the test indicate that the right ads went to the right people.
31. Gary Black estimates that PM's marketing budget is \$1.1 billion, \$500 million lower than last year. Can you confirm these figures? How will the budget cuts affect promotion of PM brands?
- Do not comment on budgets or financial issues.
 - Continue to support each brand with equity-building marketing programs.

Confidential:

- Marketing budget 1993: \$2,031 million 1994: \$1,211 million
- A number of one-time items inflated 1993 marketing expense Including Marlboro price promotion; price reduction payments to accounts holding inventory at the time of August price reduction.
- 1994 marketing expenditures more in line with '91 and '92 levels.

32. What's the news about your other premium cigarette brands — new campaigns, new promotions, new products, new price initiatives? Brand or line extension contractions, expansions?

- Merit launched a new advertising campaign "Yes you can!" in 4th qtr. 1993 to reinforce its position as a lower tar cigarette with premium taste.
- Parliament revised its advertising in the Northeast and instituted local events to support the brand among its young adult consumers.
- In 2nd qtr., Benson & Hedges will launch a new campaign (The Length You Go To For Pleasure) reinforcing its historical position as the premium quality 100mm cigarette.
- Virginia Slims advertising has been updated to appeal to today's women.

Retail Masters Program

33. What is the Retail Masters Program, and how much does it cost?

- Retail Masters provides retailers with monetary incentives for managing the cigarette category using the following principles:
 - Allocating space according to share.
 - Managing premium vs. discount.
 - Promoting the category.
- Cannot comment on the cost of the program for competitive reasons.

(Confidential: 1994 plan is budgeted at \$455 million. Estimated to penetrate 73% of C-stores and 66% of supermarkets reflecting consumer preferences for packs).

Inventory

34. What are your domestic trade inventories? How does that compare with trade inventories at the end of 1992?
- Year end 1993 wholesale inventory levels were as little as 2—3 days up to few weeks depending on the customer.
 - Year end 1992, they were at 3-4 weeks.
35. What will be your target inventory levels for 1994?
- We do not set targets for inventory levels.
 - Maintain appropriate levels of inventory of our products to avoid out of stock situations at retail. We closely monitor this situation.

Plant Tour

36. Why did you eliminate the Plant Tour Program?
- Revised the tour program, making it a more focused and effective tool, while reducing costs and making the operation more efficient.
 - Eliminated the **public** plant tour program.
 - Created the expanded **business** plant tour program to build relations between PM and a wide range of customers, suppliers, public officials, news media, farmers, international business, government officials, and similar groups.
37. Are you actually saying that the elimination of the public tour has nothing to do with anti-smoking publicity?
- (N)
- We have not eliminated the tours.
 - We are simply providing them on a more selective, cost-effective basis.
 - Did not do this in response to anti-smoking publicity.

Single Source Vendor Program

38. The PM Single Source Vendor Program is costing small vendors in the Richmond area thousands of dollars worth of business. Can you explain the rationale behind moving to large single source vendors, at the expense of small local vendors?
- More and more corporations are developing partnership arrangements with their vendors in an effort to reduce cycle time and costs while ensuring a high level of quality.
 - A single source vendor system does not, however, necessarily hurt small businesses.
 - Business that is shifted to fewer, larger vendors means that those vendors will be purchasing more goods and services, and will be creating more jobs to provide us with the goods and services we need. In many instances, large vendors purchase their goods from smaller companies.
 - While there may be some short-term disruption, long-term, as our business becomes more efficient and profitable, we buy more goods and services, thereby creating a positive economic climate in the communities in which we operate.

Note: No indication that any vendors are attending meeting.

Tobacco Crop Conversion

39. Is Philip Morris helping farmers convert to other crops?

- No. No need to.
- For generations farmers have been making the kinds of decisions required to maximize their profits.
- When farmers perceive it is to their economic advantage, they pursue supplementary forms of income without outside aid or interference.

Federal Price Supports

40. Why does PM USA support the federal tobacco price support program?

- The tobacco price support program assures a steady supply of tobacco at relatively stable prices.
- Producers and purchasers share in the costs of the tobacco program so the program has no net cost to the taxpayer (except for routine federal administrative costs).

(Federal tobacco program: Federal government assigns certain levels of price support to each grade of tobacco at auction, i.e. a minimum price farmers will receive per pound of certain types of tobacco. The program provides farmers a stable and reasonable rate of return for their product while purchasers are able to make more accurate projections of their costs for the tobacco they buy.)

Smoking Accommodation

41. What is PM's position on smoking in restaurants, offices and other public places in light of the EPA's risk assessment?
- As of 1993, 26% of American adults were smokers.
 - We support accommodation of smokers and non-smokers in public places and in the workplace.
 - Nearly 66% of respondents to a national survey favor accommodation of smokers and non-smokers in restaurants and other public places. (Source: USA Today/CNN/Gallup Pole, March 1994)
42. What are you doing to address the increasing number of smoking bans in the US?
- Launched The Accommodation Program (provides hotel and restaurant owners, store owners, shopping mall management and other decision makers with a reasonable alternative to smoking bans. Successfully field-tested in Pittsburgh, the program is now being implemented nationally).
 - Inform activist smokers through "Smokers Advocate" and "Smokers Caucus" newsletters.
 - Active government affairs field staff.
43. What is the public perception of smoking today? Has it improved or gotten worse?
- Bans and sanctions have increased.
 - Smokers are more self-conscious about lighting up.
 - Anti-smokers feel bolder in attempting to make other peoples' decisions for them.

44. What is PM doing to prevent discrimination against smokers?
- Support passage of privacy legislation at the state level.
 - Today, 29 states and the District of Columbia have laws which prevent employers from discriminating against smokers who smoke away from the workplace.
45. How does PM feel about the elimination of ashtrays in some car models?
- It's unfortunate that America's 50 million adult smokers will be inconvenienced.
 - Car makers have the right to run their businesses as they see fit; we question the wisdom of ignoring this enormous market.
46. A number of State Attorneys General have been calling for smoking bans in fast food restaurants, which are heavily frequented by minors. What is PM's response to these proposals?
- (U)
- PM doesn't market cigarettes to minors and doesn't want them to smoke, but we oppose restrictions that unnecessarily limit the freedom of adult smokers.
 - In restaurants, we favor the accommodation of smokers and non-smokers through designated smoking and non-smoking areas.
 - Research shows that smoking and non-smoking areas do a good job of limiting the amount of smoke in a non-smoking area. Several studies have shown that a non-smoker would have to spend hundreds of hours in the non-smoking section of a restaurant to be exposed to the nicotine equivalent of one cigarette.
 - McDonald's in the US and Taco Bell in both the US and Canada have banned smoking in their corporate owned outlets.

47. Why are you building smoking lounges in airports? Are you going to be building more? Are you building them in cooperation with other tobacco companies?

- We are not building smoking lounges.
- Atlanta:
 - Unique opportunity to accommodate smokers at the airport in lounges (with separate exhaust systems) that the city would build if we helped fund them.
 - Funded with dollars normally used to pay for advertising space around the airport.
- Denver:
 - Entered into an agreement with a restaurant firm (Pour La France) to create 2 smoking lounges at the new Denver Int'l Airport.
 - PM will receive exclusive advertising rights in both lounges; Pour La France to provide food and beverage service. Atmosphere similar to VIP passenger lounges.
 - Believe lounges will set a new smoker accommodation standard in airports.
- Detroit:
 - We matched up a ventilation filter manufacturer with Host/Marriott, which operates a restaurant/bar at the airport.
 - Filter manufacturer is providing its filters free to Host/Marriott on a trial/demonstration basis, and the airport has agreed to allow smoking in the bar with the additional filters.
 - No PM involvement in this arrangement.

48. A shopping mall here in Richmond (Regency Square Mall) has announced that it is considering a smoking ban. Other Richmond area malls may follow suit. How do you respond to smoking bans here in your home town?
- (N)
- The same way we do anywhere else, point out that accommodation makes more sense than smoking bans.
 - More than one-quarter of adult Americans choose to smoke. It makes no sense to discriminate against 26% of the shopping public.
 - Nearly 66% of respondents in a national survey said they favor accommodation in public places.

ASSIST Program

49. What is the status of the ASSIST program? Are ASSIST funds being used for lobbying and if so, what are we doing about it?
- Project ASSIST is a federal program established three years ago designed to reduce the incidence of smoking in 17 targeted states. A total of \$115 million is being spent over seven years on the project, with an additional \$35 million contributed by the American Cancer Society. Three years have been devoted to research and preparation; the next four will feature implementation.
 - ASSIST funds are distributed to the state boards of health which then disburse the funds to local anti-smoking groups that apply for support through project proposals.
 - There has been some suggestion that ASSIST funds are being used for lobbying purposes, which would violate federal and, potentially, state regulations on the expenditures of federal funds. We are looking carefully at this matter.

Scientific

50. Is PM USA investigating alternative uses of tobacco?
- No. Such research is being done by some universities in the tobacco-growing states, but we are not funding it.
51. There are some studies indicating that nicotine is beneficial in preventing or ameliorating the effects of Alzheimer's disease. Is PM doing any research in this area?
- We are funding research into this issue at Case Western Reserve University in Cleveland, Ohio.
52. The Centers for Disease Control and Prevention reported last September that every cigarette a smoker smokes takes seven minutes off his or her life. Is this true?
- Scientific research does not support that claim.
53. How do you respond to the Centers for Disease Control and Prevention which says that the tobacco industry needs to attract more than one million new smokers per year to replace those who have died or broken their addiction?
- About 30,000 adult smokers switch brands every day. That amounts to about \$10 billion worth of business a year.
 - The number of adult smokers in this country has been dropping by 2% to 3% each year. Still, more than 50 million adults smoke in this country.

NSA

54. What is the National Smokers Alliance?

- The National Smokers Alliance (NSA) is a national non-profit organization made up of a broad section of American citizens who support smokers' rights.
- NSA members are politically active adults who support freedom of choice.
- Prevent discrimination of smokers.

55. Was NSA created by and is it a part of PM?

- No. It is a national consumer group with the goal to defend and protect smokers' rights, monitor legislative activity, provide information, and represent smokers with the media and elected officials.
- Coalition development experts (Burson-Marsteller) set up the organization to meet our consumers' need to have a smokers' rights organization.
- Barbara Rewey, media coordinator at the NSA. (703) 684-4842

56. How much has PM spent on NSA?

- We have provided the organization with a development grant.
(Confidential: A total of \$5.5 million in 1993 and 1994.)

Philip Morris International

New Business

57. With the recent announced acquisitions, it looks like PM is shifting its manufacturing away from the US to other countries. Is this true?
- No. We prefer to export from the US.
 - Local manufacturing is necessary in some countries, i.e., Turkey.
 - No sudden shifting has occurred. PMI has been operating profitably in Eastern Europe for over 20 years. The long-standing relationships we have built are one reason for our success in winning international bidding opportunities created by governments actively seeking foreign investment.
58. The Czech government lifted its monopoly laws allowing foreign competitors into the market. Do you expect this to affect our business there dramatically?
- Our established presence, brand recognition and distribution give us competitive advantage.
59. What is the current profitability on the investment in Eastern Europe and status of shipments to Russia?
- (N) ▪ Making \$141 million in Central and Eastern Europe. Will not disclose country figures.
- Shipping Marlboro and Bond Street to Russia through private channels.

60. Has the political instability in the former Soviet Union affected PM's business there?

- We view the events as a strong move towards democracy and a free market economy in the long-term.
- We are continuing to do business in Russia and our current business is growing and profitable. We are closely monitoring the situation and will take appropriate action as needed.
- With our start-up in Samara (June 1992), we were the first joint venture in the Russian Republic to produce an international brand.
- In St. Petersburg, a 1 billion unit make/pack facility will be operational in summer 1994. We also have plans for a separate 10 billion unit greenfield site.
- In 1993, PMI invested in Lithuania and Kazakhstan.
- We acquired 49% of the Krasnodar Tobacco Factory in 1993.
- We expect that the business environment will continue to be volatile, but are confident that there is enormous business potential.

Confidential: To date (3/31/94) our total investment in Russia is \$15 million.

Klaipeda

61. Is PM reconsidering allocating an additional \$25 million in the construction of the new factory in Klaipeda?

- (N)
- There is currently a problem in Lithuania with the fact that many cigarettes are coming into the country with taxes unpaid.
 - We have had many discussions with the government and will continue with our investment plan when this problem has been resolved.

62. What are your expectations for China, Russia, Korea, Indonesia and other under developed markets in terms of volume and profit potential?

(N) ▪ We cannot comment on individual markets.

63. Are we making a reasonable profit in Brazil and other Latin American markets?

(N) ▪ Latin America is our fastest growing region.

▪ We are making in excess of \$250 million in IFO.

Japanese Monopoly

64. Do you expect the Japanese monopoly to expand through Europe and Asia?

(N) ▪ Japanese monopoly, Japan Tobacco, is already expanding through Europe and Asia. For example they are the number two cigarette company in Korea behind Philip Morris.

▪ They have also launched several products in the US.

▪ We expect to see them continue their expansion plans and view them as a formidable competitor.

Pricing

65. Is the Marlboro Friday announcement having any affect on PM's International business?

▪ No. Pricing change was a response to the US market circumstances unrelated to international markets.

66. Has Marlboro's image been "tarnished" internationally as a result of "Marlboro Friday?"

▪ No. Marlboro remains the best selling cigarette in the world, posting more than an 8 billion unit increase from the year before.

67. "Marlboro Friday" indicated that the price gap in the US was too large. Is Marlboro's price gap under review globally?
- Price gaps are managed on a market-by-market basis.
 - Ferociously defending the premium segment in all markets.
 - Volume continues to grow—Marlboro's international volume increased over 8 billion units in 1993.
68. What are the price gaps per pack in some of our major markets? Are they generally widening or narrowing? Is there a potential problem?
- (N) ▪ In our top ten income producing markets, Marlboro's price gap with the most popular price cigarette is less than 40%, and in some cases less than 10%.
- We cannot predict competitors' actions, but we believe this pricing can be managed
69. Is Marlboro growing as fast as our other brands in Europe?
- (N) ▪ Chesterfield was our fastest growing brand last year because of the price war in France.
- Over the past five years, Marlboro was our fastest growing brand.
70. Given PM's experience in the US, will PM try to introduce "discount brands" into the international arena?
- Price tiers in the cigarette markets outside the US have existed for decades. We have brands in numerous tiers.

71. Given that PMI's markets' margins are slimmer than in the US, how does PMI intend to expand profitability?

- Earnings grow in all our regions primarily through volume growth.
- Growing brand franchise and aggressively reduced the cost of doing business in our established markets (primarily OECD).
- In other markets, increasing volume through organic growth and strategic acquisitions.

Exports

72. Why has international export volume growth slowed?

- We moved production from the US to our new factory in Torbali, Turkey to avoid discriminatory duty on US cigarettes (90%).
- Our year on year growth rate in Japan has slowed after the initial surge from market access.
- We are again showing growth with the recent introduction of the new brand "Next."

73. How much does PM USA charge for export production?

- (N)
- Arm's length pricing.
 - We will not disclose specifics.

Operating Margin

74. As Eastern Europe and other lower margin markets continue to open, will PMI operating margin growth slow down or even begin to decline?

- A reduction in operating margin does not mean a slowing of profit growth. Our operating margin growth will slow as we expand into lower margin markets.
- Our core business remains strong and our investments in these new markets will show good returns in the long term.

75. What are our most profitable markets and what percent of income comes from the top five?

- (N) ▪ Our top five markets are Germany, Japan, Italy, France and Turkey.
- Accounts for 50% of our income.

Fiscal Policy

76. Has smuggling increased in Canada as a result of the higher Canadian cigarette taxes?

- Due to the reported increase in contraband activity, the Canadian government lowered federal excise taxes on cigarettes. This move acknowledges what we have been contending all along; the only thing that results from exorbitantly high increases in excise taxes are windfall profits for smugglers.

Marketing

77. I read in the paper that PM was fined in Hungary for illegal marketing practices. Was this the case, and if so, why?

- PM was fined as were several other companies. We have decided to appeal the case in which the government's "competition bureau" ruled that certain PM advertisements in newspapers were "anti-competitive."
- In most of Central/Eastern Europe, existing legislation governing advertising needs to be adapted to the realities of a free-market economy.

(Further comment is inappropriate as litigation is on-going.)

Smoking Restrictions

78. With the increase in marketing and public smoking restrictions, is PMI in danger of losing some of its business?

- (U) ■ Not necessarily. PM has grown in markets where advertising is severely restricted (Italy, since 1962 and Finland, since 1978).
- Advertising has been virtually non-existent in Central and Eastern Europe, where we have been doing business for over 20 years.
 - PMI enjoyed growth in 1993 in most major markets. Total international volume was up 9% in 1993.

Note: IARC (International Agency for Research on Cancer): Currently, there is a case-control study which has been started in 11 collaborating centers in Europe to investigate the relationship between exposure to environment tobacco smoke and to other environmental risk factors (occupational exposures, air pollution, diet) and the risk of lung cancer in subjects who have never smoked tobacco. The final published copy is not expected until early 1995, however, results may be revealed in late 1994. (No leaks have yet surfaced.)

Advocacy Issues

79. The "anti-industry" forces have appeared to be "gaining steam" worldwide. Has this affected your international business as it has in the US.
- These groups have expanded their efforts.
 - Our business continues to grow.
 - A good example is Australia, the most extreme anti-smoking environment in the world. Our brand Longbeach is now the No. 1 brand in the market.
 - PMI enjoyed growth in 1993 in most major markets. Total volume was up 9% in 1993.

Marley

80. What is the company's position on its "Marley" trademark in France? Is the name being used in anticipation of marijuana legalization?
- PM has registered the trademark "Marley" in France.
 - We chose the name "Marley" for competitive reasons.
 - The name was not chosen with marijuana legalization in mind.
 - We do not feel that Bob Marley Music Inc.'s exclusive claim of the name "Marley" across varied product lines is a valid one.
 - It is our opinion that the French laws will not support the claims by Bob Marley Music Inc.

"Day One" Charge Tobacco Companies "Spike" Cigarettes with Nicotine to Keep Smokers "Addicted"

Situation Analysis/Executive Summary

- On February 28, 1994 the ABC news program "Day One" alleged that cigarette manufacturers add significant quantities of nicotine to their products in order to keep smokers "addicted."
- On March 24, 1994 PM initiated a libel suit against ABC. In the complaint PM charges that ABC knowingly made a number of false allegations against PM and that both PM Companies Inc. and PM USA have been severely damaged by the false and defamatory statements made by ABC.
- PM is seeking \$5 billion in compensatory damages and \$5 billion in punitive damages from ABC.

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"Day One" Charge Tobacco Companies "Spike" Cigarettes with Nicotine to Keep Smokers "Addicted" (Cont'd)

Why did PM file a \$10 billion lawsuit against ABC?

- We filed a lawsuit against the American Broadcasting Companies and several ABC employees for false and defamatory statements made on ABC's *Day One* news show and other news programs.
- The essential allegation by ABC on those broadcasts was that cigarettes are **"artificially spiked"** with nicotine during the manufacturing process **"in order to keep people smoking."**
- This allegation and similar ones made by ABC are not true, and ABC knows that they are not true.
- ABC was aware of the facts prior to the February 28 *Day One* broadcast. ABC chose to ignore the facts. As a result of the false and defamatory statements broadcast by ABC among other things:
 - the price of PM stock declined dramatically;
 - Members of Congress called for investigations into the cigarette-manufacturing process;
 - Commissioner Kessler of the FDA expressed his concern;
 - President Clinton stated "that really bothered me when I heard that more nicotine was going in to make sure that people were hooked."
- We're seeking redress for the harm caused by ABC's false claim.
- The action we took on March 24 is the most recent example of PM standing up for itself, our shareholders and our consumers.

Do you think Philip Morris will win its lawsuit against ABC?

- No one can predict with certainty what the outcome of the suit will be, but both our counsel and I believe that we have a meritorious case.

"Day One" Charge That Tobacco Companies Add Toxic Ingredients To Cigarettes

Situation Analysis/Executive Summary

- On March 7 the ABC news program "Day One" focused on the assertion of anti-smokers that tobacco manufacturers add toxic ingredients to their products.
- The program criticized the Department of Health and Human Services for having failed to do anything about these so-called "toxic" ingredients.

Q&A

How does PM respond to the charge made on the news program "Day One" that Philip Morris employs harmful non-tobacco additives in the manufacture of its cigarettes?

- Cigarette manufacturers have been supplying the Department of Health and Human Services (HHS) with ingredient information for more than a decade.
- HHS has given no indication that its review of cigarette ingredients has created any basis for concern.
- "Day One" ignored information supplied by the industry which would have put the issue in a balanced perspective.

Why isn't Philip Morris taking legal action against ABC for these charges as it is for the claims made concerning the nicotine content of cigarettes?

- Company counsel concluded that, though the opinion statements made in the program were erroneous, none of the factual statements made constituted the basis for a libel claim.

The FDA Initiative Regarding Its Jurisdiction Over Tobacco Products as Drugs Under The Federal Food, Drug and Cosmetic Act

Situation Analysis/Executive Summary

- On March 25, 1994, in testimony before Congress, FDA Commissioner David Kessler noted that the FDA had "never stepped in to regulate tobacco products as drugs . . . [because it] never had sufficient evidence."
- He testified that the FDA may now "step in" because of an accumulation of information on two pivotal factors -- the "addictive nature of nicotine" and "the ability of cigarette companies to control nicotine levels."
- If the FDA declares jurisdiction over cigarettes under its present authority, it has a number of options:
 - the Agency could remove from the market all cigarettes containing nicotine on the grounds that the cigarettes are new drugs that are not generally recognized as safe and effective;
 - it could remove from the market all cigarettes containing levels of nicotine deemed by the FDA to be addictive;
 - it could limit the availability of cigarettes to prescription use;
 - it could restrict cigarette advertising;
 - it could restrict cigarette ingredients as part of the new drug approval process.

The FDA Initiative Regarding Its Jurisdiction Over Tobacco Products as Drugs Under The Federal Food, Drug and Cosmetic Act (Cont'd)

Q&A

What is Philip Morris doing about the FDA investigation into whether the Agency has the authority to regulate cigarettes as drugs?

- We intend to cooperate fully with the FDA investigation and have already been doing so.
- Our position has always been that cigarettes do not come under the jurisdiction of the FDA because they do not meet the definition either of a "food" or of a "drug"

[Note: position is still in the process of development. More to come.]

How do you respond to the FDA's statement that there is growing evidence that tobacco companies deliberately maintain the level of nicotine in cigarettes at addictive levels?

- We fundamentally disagree with their outrageous statements.
- Tobacco is not "addicting" as evidenced by over 40 million people who have quit smoking without any professional help.
- Nicotine is a naturally occurring substance in tobacco. There is nothing done in PM's tobacco processing or cigarette manufacturing that increases nicotine in the tobacco blend. Conversely, the manufacturing process results in less nicotine in the final product than exists in the unprocessed tobacco.
- PM's products provide consumers with a range of choices in tar and nicotine levels. Consumer taste preferences resulted in products with lower levels of both tar and nicotine.

(Cont'd)

The FDA Initiative Regarding Its Jurisdiction Over Tobacco Products as Drugs Under The Federal Food, Drug and Cosmetic Act (Cont'd)

- The overall nicotine content in cigarettes has declined by more than 50% in the last 40 years.
- Nicotine levels for all cigarettes are measured pursuant to FTC methods and publicly displayed in every cigarette advertisement, in accordance with law.
- Both FDA and the courts have recognized that cigarettes should not be regulated by the FDA. Nothing has occurred which warrants a change in this policy.
- Each year all cigarette ingredients are reported to the Department of Health and Human Services as required by law.

How does PM respond to proposals that cigarettes be treated like a drug and regulated by the federal Food and Drug Administration?

- When people say that the FDA should regulate cigarettes the way the Agency regulates prescription drugs, they're essentially talking about Prohibition.
- Prohibition didn't work for alcohol in the '20s, and it won't work for tobacco products in the '90s.
- No basis for treating cigarettes as if they were an addictive drug. They do not alter mood or impair perception.
- More than 40 million Americans have quit smoking and, according to the American Cancer Society, 90% did so without the aid of a formal smoking cessation program. They simply decided to quit and did so.
- This does not fit the pattern of addictive drugs.

The FDA Initiative Regarding Its Jurisdiction Over Tobacco Products as Drugs Under The Federal Food, Drug and Cosmetic Act *(Cont'd)*

What is the prospect for enactment of legislation to place tobacco products under the jurisdiction of the Food and Drug Administration (FDA) or Consumer Product Safety Commission (CPSC)?

- It is unlikely that tobacco products will be placed under the jurisdiction of the FDA or the CPSC.
- Congress, the FTC, the FCC, the Department of Health and Human Services, the Treasury Department, and the Agriculture Department already have extensive regulatory authority over various activities of the industry.

"Fire-safe cigarettes, "60 Minutes," Mike Wallace

Situation Analysis/Executive Summary

- In a broadcast on March 26, 1994, "60 Minutes" correspondent Mike Wallace alleged that cigarette manufacturers are capable of producing a fire-safe cigarette, but have refused to do so because of possible adverse product liability consequences.
- Wallace referred to a number of PM documents to support his allegation.

Q&A

How does PM respond to the charges made by Mike Wallace on "60 Minutes" that cigarette manufacturers are capable of producing "fire-safe" cigarettes but have failed to do so?

- The allegations are untrue. PM does not now have, nor has it ever had, the capacity to manufacture a "fire-safe" cigarette.
- We know of no cigarette now on the market which could be characterized as "fire-safe."
- Indeed, there is no reliable test or standard to determine what is a "fire-safe" cigarette.
- PM has conducted its own research as well as worked with others in industry and government to develop such a test and standards. We remain committed to this effort.

How can PM contest this issue, given that Wallace used PM documents to support his claims?

- These documents were taken completely out of the context of a research program in which we were engaged for several years.
- The documents were prepared by low-level employees and do not tell the full story of those efforts.
- Wallace obtained the documents [illegally] in violation of a court order.

"Fire-safe cigarettes, "60 Minutes," Mike Wallace *(Cont'd)*

What is PM USA doing to produce a commercially marketable "fire safe" cigarette? What do you think our competitors will do?

- In 1990, Congress, instructed the Consumer Protection Safety Commission (CPSC) to provide a report on whether a commercially feasible "fire-safe" cigarette could be developed.
- PM USA, as well as other members of the industry, participated in the Technical Advisory Group to the CPSC that did the feasibility study. CPSC has submitted its report to Congress.
- Our R&D dept. is continuing to work on the issue of reducing the ignition propensity of cigarettes.
- Don't know what competitors will do.

Would you comment on the Justice Department investigation into the allegation that the cigarette manufacturers are conspiring to keep a fire-safe cigarette off the market?

- [TK]

WAYS AND MEANS COMMITTEE VOTE TO RAISE FET \$1.25 PER PACK

Situation Analysis/Executive Summary

- On March 22, 1994 the Health sub-committee of the House Ways and Means Committee voted to increase the federal excise tax on cigarettes \$1.25 per pack.
- Revenue from the proposed tax would be used to fund national health care reform.
- If enacted, the federal excise tax on cigarettes would rise to \$1.49 per pack.

Q&A

How is Philip Morris responding to the recent House Ways and Means sub-committee vote to increase the federal excise tax on tobacco \$1.25 per pack?

- Philip Morris supports the principle of health care reform but we continue to oppose any increase in federal cigarette taxes.
- High taxes on cigarettes to fund health care reform unfairly target one group of consumers to pay the costs of a major new program that will presumably benefit all Americans.
- Increasing the federal cigarette tax will cost jobs. According to an analysis of data prepared by Price Waterhouse, a \$1.25 increase in the federal cigarette tax will cost 490,000 jobs in tobacco and related industries. The President's proposed 75-cent increase would cost 275,000 jobs.
- The proposed increase in the FET would cause a reduction in cigarette sales and thus reduce the excise tax revenue collected by the states.

(Cont'd)

WAYS AND MEANS COMMITTEE VOTE TO RAISE FET \$1.25 PER PACK
(Cont'd)

- An increase in the FET would increase retail store crime by making cigarettes a more attractive target for thieves. When Canada sharply increased its cigarette tax, the result was a similarly sharp increase in theft and smuggling.
- Excise taxes are a highly regressive form of taxation, and have their most severe impact on those who earn the least.
- Increasing the cigarette tax to exorbitant levels represents an attempt at social engineering. The sub-committee is clearly attempting to influence personal behavior through higher taxes.
- Preventing a sharp increase in the FET is one of our core objectives this year. We are part of a broad coalition of organizations and businesses that oppose any increase.
- We have received strong, spontaneous support from our employees -- for example, during the March 9 march on Washington -- as well as from growers, other manufacturers, suppliers, distributors, retailers, and from other groups outside the industry. That support continues to grow.

Philip Morris' lawsuit against the EPA

Situation Analysis/Executive Summary

- In January 1993 the U.S. Environmental Protection Agency (EPA) issued a report claiming that tobacco smoke in the air increases the risk of lung cancer in non-smokers. The EPA report was based upon a review and statistical analysis of selected research studies.
- As a result of its findings, the EPA added ETS to its list of "Group A carcinogens", a list of substances "known to cause cancer in humans."
- Philip Morris has filed suit against the EPA in federal court, seeking to force the agency to withdraw its classification of ETS as a "carcinogen."

Philip Morris' lawsuit against the EPA (Cont'd)

Q&A

Why has Philip Morris filed suit a lawsuit against the EPA?

- We have filed suit against the EPA in order to force the Agency to withdraw its classification of ETS as a "carcinogen." We believe the EPA's report on environmental tobacco smoke is seriously flawed.
- There are four basic concerns about the EPA report:
 - The Agency did no research of its own.
 - It combined the data of other researchers using a questionable statistical technique known as "meta-analysis."
 - The EPA lowered its own standards of statistical significance to achieve a result we think was politically motivated.
 - The Agency failed to include data from a National Cancer institute study that would have eliminated the statistical significance of the EPA's findings, even by the Agency's own lowered standards of significance.

What is the current status of the lawsuit?

- We are awaiting a ruling by the court on the EPA's motion to dismiss our lawsuit based on a number of technical legal arguments, which do not address the merits. The case cannot proceed further until these issues are resolved.

Does Philip Morris expect to win its lawsuit against the EPA?

- No one can predict with certainty the outcome of a legal action of this kind. But if the case is allowed to be tried on its merits, we believe we stand a good chance of victory.

Indoor Smoking Ban Proposed By OSHA

Situation Analysis/Executive Summary

- The Occupational Safety and Health Administration (OSHA), a division of the Federal Labor Department, has proposed a regulation which would ban smoking in all public buildings and indoor gathering places, including restaurants and bars.
- Under the OSHA proposal, smoking would be permitted only in specially designed enclosed areas which have direct exhaust to the outside.
- Companies that are found to be in violation of the smoking ban could face fines as high as \$70,000 per violation.
- It will be approximately a year before the ban can be promulgated. Once the regulation becomes final, building owners would be given another year to come into compliance.

Q&A

How is Philip Morris responding to the workplace smoking ban proposed by the Occupational Safety and Health Administration?

- We oppose any rule that mandates blanket indoor smoking restrictions.
- We believe that OSHA's preliminary position is not supported by the scientific data that are already in OSHA's public docket or by the scientific literature in general.
- We intend to offer any expertise or scientific data we may have for inclusion in OSHA's decision-making process.

Melvin Belli Class Action Suit

Situation Analysis/Executive Summary

- Melvin Belli [pronounced "BELL-eye"] announced on March 30, 1994 that he and 25 attorneys were filing a federal class action suit against the major cigarette manufacturers, including Philip Morris.
- Plaintiffs allege that tobacco manufacturers manipulate the level of nicotine in their products in order to cause their customers to become "addicted."
- Belli estimates that the damages could go as high as \$5 billion.

Q&A

How does Philip Morris respond to attorney Melvin Belli's class action lawsuit which charges that tobacco manufacturers manipulate the nicotine content of cigarettes in order to get their customers "hooked?"

- There is no merit or substance to the allegations.
- PM does not manipulate nicotine levels in its cigarettes in order to addict smokers.
- PM is suing the ABC news program "Day One" for making such a claim.
- We are maintaining our vigilance about false and misleading statements made about our company. When we encounter such statements, we are vigorous in getting the truth out, up to and including taking legal action.
- Addiction claims have been made previously in many cases tried against the cigarette companies and companies have prevailed in each case.

Broin V. Philip Morris Companies Inc. -- Flight Attendants Class action ETS Lawsuit

Situation Analysis/Executive Summary

- This suit was filed in state court in Miami, Florida, on October 31, 1991. There are 25 defendants, including six PM entities and the other five major cigarette manufacturers.
- Plaintiffs are 27 flight attendants who allege they have been injured by exposure to environmental tobacco smoke (ETS) in aircraft cabins.
- Plaintiffs have asked the case be certified as a class action on behalf of all non-smoking flight attendants who work on U.S.-based airlines. The size of this class is estimated to be approximately 60,000.
- Defendants' motion to dismiss the class action allegations was granted by the trial court in May, 1992, but the Florida Court of Appeals reversed that ruling on March 14, 1994.

**Broin V. Philip Morris Companies Inc. -- Flight Attendants Class action
ETS Lawsuit (Cont'd)**

Q&A

Does the recent reversal by the Florida Court of Appeals in Broin v. Philip Morris leave the company vulnerable to a large class action law suit?

- The decision by the Third District Court of Appeals did not certify the flight attendants in Broin as a class. All the Court did was reinstate the allegations.
- The Court has not said there is a class, and no class has been certified by the Court of Appeals.
- The issue of the class action is still out on appeal. The Third District Court of Appeal's ruling still must be reviewed and many issues have to be addressed before the issue of the group's status as a class can be taken up and established one way or the other.

American Medical Association (AMA) Alliance with Health Food Store Chain in Anti-Smoking Campaign

Situation Analysis/Executive Summary

- On March 31, 1994 it was announced that the AMA had accepted \$1 million from the General Nutrition Centers health food store chain. The money is to be used to fund an AMA anti-smoking campaign.
- In return, General Nutrition Centers has the exclusive right to sell an AMA anti-smoking kit costing \$70.
- Critics of the arrangement have questioned the kit's effectiveness and high price. The AMA admits the kits have not undergone rigorous scientific testing.
- Dr. Ronald M. Davis, former director of the Surgeon General's Office on Smoking and Health and a member of the AMA's council on scientific affairs, expressed concern about the alliance in light of the FDA's recent investigation into "the inappropriate promotion of dietary supplements."

Q&A

What is Philip Morris' position on the AMA's recent alliance with a health food store chain to promote a \$70 anti-smoking kit?

- Philip Morris believes in free choice and freedom of expression. The AMA and General Nutrition Centers are free to enter into any agreement and promote any product they want.
- It is up to adults to evaluate all of the available information on smoking -- including that which is put out by the AMA -- and make their own decision on whether or not to smoke or to continue smoking.

American Medical Association (AMA) Alliance with Health Food Store Chain in Anti-Smoking Campaign *(Cont'd)*

Do you believe it is appropriate for the AMA to accept money from General Nutrition Centers in view of the FDA's recent investigation into misleading health food and vitamin supplement advertising?

- Only the AMA can decide whether it is appropriate or inappropriate for it to accept certain funds.

INFACT

Situation Analysis/Executive Summary

INFACT, a new player on tobacco issues, launched campaign in May 1993. Formerly known as Infant Formula Action Coalition. (INFACT went against Nestle for selling its infant formula in "Third World" countries without complete information. Then INFACT focused on GE's nuclear power business. In both instances, INFACT claimed victory when each company altered their operations—for business reasons, not as a result of INFACT's activities.) INFACT works with other anti-tobacco groups—particularly Dr. Greg Connolly's Stop Teenage Addiction to Tobacco (STAT) to taint the image of tobacco manufacturers. INFACT launched a postcard campaign in October 1993.

Confidential: To date, more than 8,000 postcards have been received by PM. In addition, INFACT recently started a telephone campaign. We are tracking calls.

INFACT plans to launch a "major international boycott of Philip Morris," and a national campaign to "get Joe Camel out of retail stores." This activity will be launched on April 19, in 25 cities throughout the US.

Q&A

How do you respond to INFACT's threat to boycott KGF products if PM does not stop undermining public health efforts, and stop marketing and promoting tobacco to children worldwide?

- PM markets its brands to adult smokers — not to children.
- Tobacco Institute's "It's the Law" campaign educates retailers regarding their states' laws governing sales to minors and offers information on keeping cigarettes out of the hands of children.
- PM well understands the importance of all our freedoms—including a free press and speech—that speaks for and to the diversity of the country.
- KGF operates independent of tobacco company. A boycott of our food products is inappropriate.

Shareholder Proposal: Milk/Cheese Pricing

Situation Analysis/Executive Summary

- Proponents - For the past three years, activist church groups have submitted shareholder resolutions relating to Kraft's trading on the National Cheese Exchange. The proponents the first two years were the Missionary Oblates of Mary Immaculate. ("Oblates" are orders of lay persons who have dedicated their lives to the church.) This year, the Sinsinawa Dominicans, which was a co-filer in 1993, is the primary filer, the Missionary Oblates is a co-filer. The Sinsinawa Dominicans are located in Sinsinawa, Wisconsin, while the Oblates do not seem to have any particular nexus with a dairy geography.
- Reason for Involvement - In the past 5 to 8 years, decreases in the federal support price for milk have resulted in a degree of volatility for milk prices that is typical of agricultural markets but unfamiliar to dairy farmers. This has caused increased focus on the market which most visibly correlates with the prices farmers receive for milk -- the National Cheese Exchange. Farmers have blamed the Exchange for the volatility, and -- since Kraft has been the principal seller of cheese on the Exchange for the past several years -- have blamed Kraft when prices decline. The simplistic explanation that when Kraft sells, dairy prices decline, has appealed to activists who are not knowledgeable about the complexities of supply and demand conditions in the dairy industry.

Shareholder Proposal: Milk/Cheese Pricing (Cont'd)

- History of Proposals - In 1992, the Missionary Oblates withdrew its proposal on condition that PM and KGF representatives agree to meet with their representatives. The meeting was unproductive and generated adverse publicity for Kraft in Wisconsin. In 1993, after PM sought a no-action letter from the SEC, the Oblates again withdrew its proposal on condition of a meeting. The 1993 meeting was relatively cordial and caused no adverse consequences. However, the 1994 proposal repeated the errors and misconceptions contained in the earlier proposals. Since it seemed evident that everything we said had fallen on deaf ears, a decision was made to seek a no-action letter but not have a third meeting. The result was that the proposal was published in the proxy statement.

The Proposal(s)

Some details have varied over the years, but the basic premise and objective of the proposals have not changed.

- The premise has been the assumption that the price the farmer receives for milk is a consequence of Kraft's sales of cheese on the National Cheese Exchange.
- The objective has been to require Kraft to make business decisions that will cause the farm-gate price for milk to increase.

The 1994 proposal asks that the company engage in the following actions:

- Cease trading of the Exchange.
- Take "extraordinary" measures to influence government policies purportedly for the purposes of raising and stabilizing milk prices, insuring competition among dairy processors, and insuring the survival of "family-operated" farms.

Shareholder Proposal: Milk/Cheese Pricing (Cont'd)

Our Responses to the Proposals

The basic premise is wrong. The prices for milk and cheese are functions of a number of interrelated variables. In general terms, the factors are supply and demand, together with governmental regulation which may influence either or both of them. When the supply of milk exceeds the demand for dairy products, prices of all dairy commodities decline; the inverse is also true.

- For example, with extremely wet weather in the midwest last summer, milk production declined. Prices of both milk and cheese rose. Transactions on the Exchange were not the "cause" of the rise in milk prices; rather, the decline in the supply of raw milk caused an increase in prices for all dairy commodities.

The objective is impossible. Kraft cannot, does not and should not sell cheese on the Exchange with an intent to affect prices.

- "Cannot" -- Kraft makes about 6% of the natural cheese in the United States and uses less than 20% of the country's natural cheese and 11% of its milk. Kraft competes in an industry with many other large organizations, both manufacturers such as ConAgra and Borden and cooperatives such as MidAm, AMPI and Land O' Lakes. It is obvious that no company has the market power to set, dictate or direct commodity prices. Kraft buys and sells commodities at the prices determined by a highly competitive market.
- "Does not" -- Kraft engages in transactions on the Exchange in order to balance its dairy supply and demand. Kraft's legitimate and rational business needs currently make it more likely that Kraft will sell rather than buy cheese on the Exchange. Other traders, with different business needs and strategies, may adopt other practices. In any event, it is the supply-demand balance of the total industry, not the supply-demand balance of any single company, that determines prices.

Shareholder Proposal: Milk/Cheese Pricing (Cont'd)

- "Should not" -- Since Kraft lacks market power, it could not set price without engaging in collusion in violation of the antitrust laws. Federal and state law enforcement authorities have repeatedly investigated the Exchange and have repeatedly concluded that no such violations occurred.

The proposed actions are ill advised and counterproductive.

- The proposal asks that Kraft become the only major cheese company that does not -- and the only cheese company that may not -- trade on the Exchange. This would result in a significant competitive disadvantage.
- Markets set prices on the basis of available information. Prohibiting Kraft from participating in Exchange transactions would deprive the cheese market of valuable information. There is no foundation for suggesting that the result of such a prohibition would be a market which more accurately reflects the value of cheese.
- The idea that governmental action to raise and stabilize prices somehow "insures competition" is absurd. Such actions may protect less efficient and productive competitors, but economic protectionism is not pro-competitive in any way.
- The decline in the number of dairy farms -- and all other types of farms -- has been proceeding for decades. Continuous increases in productivity have not been offset by equivalent increases in consumption. If prices were somehow raised as the proponents desire, productivity improvements would continue unabated, but consumption would decline.

Shareholder Proposal: Milk/Cheese Pricing (Cont'd)

Q&A

There have been reports that Kraft General Foods controls cheese prices through the National Cheese Exchange. What is your company's position?

- We don't. Supply and demand determine milk and cheese prices.
- Kraft General Foods uses the National Cheese Exchange "opinion" as the basis for establishing bulk cheese prices.
- Federal government has reduced support prices for dairy products. Prices for milk and other dairy commodities have become exposed to the forces of supply and demand.

Why do shareholder groups keep challenging your behavior in the cheese market?

- Two shareholder groups would like to see higher milk prices
 - due to government regulations, or
 - by Kraft manipulating milk prices higher.
- Kraft believes that milk prices should be a function of marketplace forces of supply and demand.
- Kraft's acts must be in compliance with the law.